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## THE CLEARING-HOUSE SYSTEM.

### I.

PRESIDENT MCKINLEY said a short time before his lamented death, in conversation regarding the incorporation of clearing-houses under a federal law, that a measure which would obviate the "pull by the banks," illustrating his words by a simple gesture, would be of the greatest service and benefit to the country. This result the clearing-house system proposes to accomplish.

An excellent definition of what is meant by the "pull by the banks" was given by Lyman J. Gage, when secretary of the treasury, in his report to Congress of December, 1899. Referring to the annual transfer of currency to move the crops, he said that in the nine weeks of the fall of 1899 twenty-three millions of lawful money were sent from the reserves to perform this initial function of the business year.

This depletion destroyed the guard of cash required by law for \$92,000,000 of deposits. It became imperative under the reduced holdings of cash, in order to bring liabilities down, for the banks to collect their claims from the public and by this process reduce their credit obligations (deposits) to the public. That element of the currency which bank credit furnished was contracted within a period of nine weeks to the extent of \$84,000,000. In common parlance, deposits were reduced to that extent. Put in the shortest form, in order to supply the interior with the use of a medium of exchange for a few weeks, to the amount of \$23,000,000 havoc was wrought in the regular ongoing of our commercial life.

The instance here cited, and so ably presented by Mr. Gage, is the familiar experience of the business public season after season. It explains what is meant by "the pull by the banks." In their efforts to obtain currency, either to move the crops or to provide against other sudden demands, this is their rule of action. Whenever circumstances arise like those described by Mr. Gage, the quantity of money, as merchants understand that word, is suddenly diminished; the value of money, as expressed in the rate of interest, is increased; and the value of commodities, as expressed in market prices, is lowered. The resulting havoc may be accomplished in a time as short as that in which the Johnstown flood did its work; but,

though short, property in both instances is irretrievably destroyed. The facts of everyday business, therefore, do not support the position taken by some economists, as quoted by M. B. Hammond in *The Dial*, November, 1903, that "the great use of deposits as currency has dispelled all danger of contraction, as well as rendering of little account the gains, made so much of by many writers, from having an elastic currency." The disaster at Johnstown is an unanswerable argument in favor of a strong dam, and the havoc wrought by a money contraction is equally effective to establish the necessity for relief from the "pull by the banks."

## II.

The simple expedient which will obviate the pull on the business community by the banks is to give them something else to pull on. That something else must be a substitute which can supply a currency just as good as the lawful money which the banks obtain from the public by requiring the payment of loans and bills receivable. The clearing-house has proved itself competent to be such a substitute. The remedy is simplicity itself. In discussing this subject it is well to proceed from the simple to the complex, from the homogeneous to the heterogeneous; to grasp first the idea in its most elementary form, and afterwards treat of it in its various differentiations. There is no simpler idea than to substitute one thing for another. The proposed remedy puts the impersonal clearing-house in place of the palpitating public. It shifts the pull from where it causes havoc to where it may give assistance in the regular ongoing of our commercial life. It puts the pull on the clearing-house, making that a source of supply of a medium of exchange for the annual crop movement and for all other needs. Commercial life would then go on regularly without disturbance. This is a simple suggestion, and the very great good which would result therefrom makes it worth while, whatever may be the difficulties in the way, to work out the details of such a proposal so as to make of it a working plan.

Under our present arrangements the relations of banks to their borrowers are direct and personal. If the banks are called upon for currency, for any reason, so that their reserves are diminished below the legal requirements, they right themselves, as provided in sec. 95 of the National-Bank Act, by calling loans or stopping discounts; or, in other words, by pulling on their borrowers. Probably to the minds of most bankers a suggestion that this course is a

breach of contract, a confession of weakness, and a dereliction of duty would be dismissed as not worthy of consideration, so unaccustomed are they to having this aspect of their methods presented to them, and so accustomed are they to this direct and personal way of easing themselves. Yet their action is clearly a breach of contract, a confession of weakness, and a dereliction of duty. The banks by taking state or national charters assume in theory to do the banking business of the public and promote the regular ongoing of commercial life, to the exclusion of all others not so chartered. But when a time of need comes, they are compelled to say they can no longer fulfil their obligations thus assumed, and instead thereof must take a short, sharp, and quick recourse on their debtors, which is a discontinuance of their functions as bankers in that, which is the most important, particular. This is a breach of the implied contract with the public. To the question why they do so, the answer is that they cannot help it or do otherwise, which is a confession of weakness. That banks ought so to conduct their business that they shall not be compelled to force the commercial world to the wall under any circumstances must be acknowledged to be their duty. If they do not, it is a plain dereliction of duty.

Banks, however, are not much troubled with these questions, because they roll all responsibility on to the lawmakers. They claim that they are conducting their affairs strictly according to the requirements of the law, and that their responsibility ends there. They keep on hand a reserve, as required by sec. 94 of the National-Bank Act, and they maintain it as directed by sec. 95. If the public wish the banks to conduct their business according to different rules, they say, in effect: "Let the Congress of senators and representatives enact additional laws, and we will carefully conform to them." But it is unreasonable to expect individual banks to set examples of conservatism not required by law, at their own loss.

The case of the banks assumes a different aspect when the tables are turned and their creditors, the depositors, make demands upon them which exhaust their surplus cash means, and their solvency, and the ability to maintain it, become matters of doubt. The pull of the banks on their debtors, which usually is productive of cash results, then yields nothing, for borrowers have been put in the vocative. The banks then feel the necessity for some resource to enable them to meet this pull of their creditors, just as the individual

debtors felt the same necessity when they desired relief from the pull by the banks.

President McKinley's remark should therefore be broadened to include the pull by the creditor class, whether they are banks as creditors of their borrowers, or depositors as creditors of the banks, or creditors generally. No one knew better than President McKinley that there is a defect in our banking system which works great hardships at frequent intervals, and which ought to be obviated if in the power of the lawmaking branch of the government to correct it.

### III.

The clearing-house system is designed to remove this difficulty. It is intended to be a protection to the debtor class, whether banks or individuals, against the demands of the creditor class, which are always sharp and sudden, whether the debtors are the banks or their borrowers. Under this system the pull would be on the clearing-house and not on the debtor. Currency would be obtained from the clearing-house, and not by calling loans and disturbing money, and setting in motion the successive demands which pass the pull on throughout the business community, causing havoc therein.

By this simple means the banks would be able to keep their contract with the community to do its banking business to its satisfaction; they would show that their strength was sufficient to meet all demands upon them; and they would perform their duty to the public by taking active measures to fulfil their implied obligations.

It is evident as an incontrovertible proposition that the pull on debtors can be avoided only by giving creditors something else to pull on. There is no banking system in existence in any nation in which this result is reached except by means of one or more institutions of a higher grade than the popular banks, which have the power to issue currency and to which the popular banks can have recourse.

It is as simple as any everyday mechanical experience. If one is sailing a boat and a gust comes up, the skipper does not hold the main sail with his hands, but takes a hitch on the nearest cleat. He will surely be jerked into the water if he continues his hold on the mainsail; but it is easy sailing if the pull is on the cleat and not on his arms.

This direct recourse of the creditor on the debtor is a survival of the old common-law severity against the debtor and in favor of

the creditor. It is the vestigial remains of the ancient dominance of property over persons in aristocratic governments. Penal laws were made by the rich and laid upon the poor. The whole tendency of republican legislation is to ameliorate these laws. Persons are many; property is in the hands of few. Debtors outnumber creditors, and the progress of legislation is sure, in a democratic form of government, to be in favor of the majority.

#### IV.

Banking is the stronghold of property. On that field it can make its strongest fight. It contests every inch and claims everything in sight. The history of banking in the United States is proof of this. The development of republican institutions is well exemplified in the progress in our banking legislation.

Alexander Hamilton was the originator of national banking in the United States. He persuaded Washington and Congress that, under the constitution, the latter had the implied power to charter a bank, and he secured the passage of the act incorporating the first Bank of the United States. This was a national institution, and every national bank now existing owes its charter to what is no longer held to be an implied but a necessary sovereign power of Congress to grant it. The theory of Hamilton has been accepted. The thing done under Hamilton's advice has met with a different fate. It was conceded that Congress had all the power needed to establish a strong banking system. In the light of our subsequent history, we inquire how that power was used.

The patriotism of few of the founders of the republic can be compared in depth, intensity, and purity with that of Hamilton. He thought "it was essential that the government should be so constructed as to give it all the energy and stability reconcilable with the principles of the republican theory." As a means to that end, he chose the British model, not because it was British or aristocratic, but because he thought it was the best suited to accomplish the end in view. He would have introduced aristocratic features in the constitution, not because they were aristocratic, but because they would have made a strong government. In these propositions he was overruled. When the convention had adopted the constitution and its work was closed, Hamilton's patriotism shone out clear and strong. The paramount object was attained by the form adopted, and he sunk out of sight all his minor objections and became the

most active advocate for its adoption by the states. This was not a single instance of Hamilton's lofty patriotism and self-abnegation. It was rather an illustration of his principle of action. This same principle led him in after-years to support even his lifelong adversary, Jefferson, when elected to the presidency. Others who failed to have their opinions incorporated in the constitution sulked or antagonized. Hamilton's optimistic nature and patriotic impulses would not suffer him to do this, and he stands out in history as an unapproachable model to all partisans.

But when the government was organized and he became secretary of the treasury under Washington, with power to mold the banking system of the United States as he might choose, he naturally carried his opinions into execution by establishing a purely aristocratic system of national banking; that is, a governmental bank with branches in every prominent city, in opposition to the state banks which then existed. His desire was to obtain the utmost power and strength to support the finances of the government, which had just been rescued from anarchy. He could not see—perhaps no one at that time could—that it was possible to establish a system of banking in accord with the principles of a democracy. He had little faith in the ability of the people to govern themselves. In his statement submitted to Washington he said the danger to the community from the political influence of so large a moneyed institution as the first Bank of the United States was "chiefly imaginary." Here was the beginning of the struggle over the banking question, and the lines which were then drawn have continued to separate the conflicting parties to the present time.

Hamilton's whole object was to secure strength and efficiency under the constitution for the new government, toward which his whole soul went out in enthusiastic patriotism. He was first patriotic, then aristocratic as its best expression for the times. Benton said that "the state of things in 1837 was the fruit of Hamilton's policy." So it must be said that the Civil War of 1860 was the fruit of the votes at the Constitutional Convention in 1787. That the seeds of financial and political trouble were then planted must be admitted, but it is proof that patriotism rose above every other consideration, and that the purpose of the signers was to compromise everything that stood in the way of founding the government on a strong basis in harmony with the republican theory.

How fortunate for this country it was that the Federalists, and not the Anti-Federalists, presided at its formation! If the impractical and visionary ideas of the Antis had prevailed, our government would have been only another fantastic social experiment, to be finally abandoned, the country divided up and made the appendages of foreign nations.

Hamilton was a pure Federalist, of which party it has been trenchantly said:

The Federalists had money, lands, and a kind of patrician pride. They believed in their own capacity to govern, and disbelieved in the capacity of other people to govern themselves. They had all the property and claimed all the power.<sup>1</sup>

Hamilton was not in sympathy with a government by the people, and it was impossible for him to devise a democratic system of banking that should be as strong as an aristocratic one. His thoughts were not running in that direction. So he merely copied — “servilely copied,” as it was then phrased — a governmental bank after the example of the Bank of England, being firmly convinced, from his youthful associations and his mature sympathies, that the British government was the “best model in existence.” Whether the formation of the Bank of the United States was the best or the only course for him to pursue may be debated, but it is undeniable that he left to the country, in this institution, a fruitful source of trouble. The good the United States Bank did for the time being was so great that the subsequent evil may well be forgotten. The times may not have been ripe in 1791 to devise a national system of banking on democratic principles that would have stood, with our executive, legislative, and judicial systems, as a bulwark against which the storms of a hundred years might beat with unavailing force. However much we admire the genius and patriotism of Hamilton, it must be said that he had the opportunity to do this work and did not accomplish it. The rest of the governmental plan has stood; his work has been swept away, and the currency question is still under discussion after 112 years. Marshall built up an interpretation of the constitution in accordance with its spirit, while Hamilton planted an exotic which was foredoomed to be blasted by its uncongenial environment.

Since Hamilton's time the democratic spirit has gradually leav-

<sup>1</sup> WILLIAM ALLEN BUTLER, *Memorial of Martin Van Buren* (1862).

ened the nation, and has changed laws, customs, and habits of thought into a homogeneous whole. Hardly a vestige remains of the aristocratic sentiment which was participated in in his time by a large proportion of the people. The country would no longer follow a man with Hamilton's proclivities. A leader now must be a man of the people. Those who now advocate a branch-banking system like that which Hamilton established are in a hopeless minority.

## V.

Our banking system did not begin right. The states chartered many banks, and Congress chartered one. After the overthrow of the United States Bank by President Jackson, a new idea in banking was evolved, as contained in the free-banking law of New York, of April 18, 1838. This was a victory of the people over the aristocratic method of granting special charters which had prevailed from the commencement of the government until 1838. The aristocratic method had been able to hold control of state and national legislation for fifty years, but at last the growth of democratic sentiment was too strong for the money power, and the free-banking act was passed by the legislature of New York in obedience to the popular demand.

The people saw the anomaly of the existence of an aristocratic banking system in a democracy. There was a conflict on the financial field between aristocratic and democratic ideas. The fight was stubborn, because the money power can command the best talent and wields immense influence. Every inch was contested. But democratic principles had become the pride of the country and furnished battle-cries which roused popular enthusiasm. There could be but one result of that conflict, because the mass of the people was on one side and only a few on the other. Free banking was the logical result of the Declaration of Independence.

There was only one defect in free banking. It formed a unit as a model, and then provided for the indefinite multiplication of that unit. Every bank incorporated under a free or general banking law is like every other bank. Each one is as independent and autonomous as the Bank of England. There is no system in a single grade. Each must take care of itself, and in a period of financial alarm must protect itself as best it can, no matter at whose expense. The law of self-preservation is the law of its existence. The National-Bank Act tells it to fight, by providing, in sec. 95,

that if its reserve falls below the legal limit, it must cease the exercise of its banking functions until it has restored its reserve. How shall it restore its reserve? Why, out of the public. Therefore, competition, the "pull of the banks," often resulting in panic, is the legal method for preserving the solvency of the present system.

A general law providing for the organization of many banks cannot safely allow them to issue currency on their own credit. Therefore such a law must require all banks to give security for the payment of the notes they issue. The security to be given must be of specified and well-known description, and therefore of necessity a currency so issued is divorced from business. It is issued to make the profit between the interest the security bears, and the tax and expense in issuing the currency, and not primarily to facilitate commerce and trade.

We have now had an experience extending over sixty years with multiple, individual banks and a bond-secured currency. There have been many occasions in that time when the banking system has worked badly or broken down, or made "havoc in the regular ongoing of our commercial life." This is so well recognized and admitted that there is no necessity to rehearse the gruesome story. The general conclusion is that some change in our system is indispensable to make it work better and save the country from further monetary disturbances.

It is not that our country needs more circulating medium, but it needs it when and where it is wanted. Circulating medium is idle capital when held in reserve, and we could get along with a much less amount than we have if there were a sure supply to be had when wanted. All proposals for increased issues by individual banks, either on specified securities or on their own credit, are dangerous, and lead to inflation of credit and unsafe business and ultimate disaster.

## VI.

It is at this point that the clearing-house system presents itself as the next logical step for the country to take in the development of its banking system. It proposes no change in any general banking law by which popular, individual, multiple banks are organized, nor any change in their organization. It proposes a new federal law under which clearing-houses shall be given national charters so that they may be empowered to be the resource to which banks may

appeal in time of need. All that Hamilton, Webster, and many advocates of a national, governmental bank hoped to obtain by such an institution would be attained through national clearing-houses, when made, to use Hamilton's words in reference to the constitution, "conformable with the strict theory of a government purely republican." All the arguments that Clay, Calhoun, and other politicians and economists constructed in favor of a national bank may be used, with slight alteration of phraseology, in support of the clearing-house system. The relations of a clearing-house to its bank members and the community are very similar to the like relations of a governmental bank, the chief difference being that a governmental bank is aristocratic and the clearing-house democratic.

Existing clearing-houses in our large cities are carefully organized, and their methods can safely be taken as models to be followed in a general law, as has been done in Senate Bill No. 2716 to incorporate clearing-houses, introduced by Hon. Thomas C. Platt in the Fifty-seventh Congress. Nowhere is conservative and prudent financial management to be found in a higher degree than in our clearing-houses. The clearing-house system contemplates the giving of federal charters to all clearing-houses, and to give to at least one in each state the power of issuing currency to clearing-house banks in its state to the par of their capital, on pledge of acceptable bank assets at 75 per cent. of their value, which currency shall be accepted by all clearing-house banks for any debt to them. Redemption is provided for by the collateral security and a 5 per cent. redemption fund. Each clearing-house shall guarantee the payment of its issues, following in this the methods which prevail in all existing clearing-houses. All banks certified as in good standing by the comptroller of the currency or by proper state authorities are entitled to membership. All clearing-house banks must keep reserves as provided in the National-Bank Act.

Two great advantages, based on the "true republican theory," are thus secured: first, the independence of every bank, small or large; and, second, every bank, small or large, has equal opportunity to get the benefit of a credit currency. That this independence is highly prized is proved by the almost unanimous disapproval of the branch-banking proposal, which may be considered dead. It may be accepted also as a foregone conclusion that to secure general approval a banking measure must give to all banks, country and city, access to an undoubted credit currency. A bank of \$100,000

capital or less cannot make a bank note on its own credit which will circulate at par from Maine to California. If small banks are deprived of this privilege, they will not consent that such a valuable right shall be given to large banks to the exclusion of themselves. They are much more numerous than the large banks, and their voice in Congress is in the same proportion more potent than that of the large banks. The small banks have killed the branch-banking proposition, and they will kill any other plan which leaves them out or is adverse to their interests.

It is through the small country banker, who is nearest to the farmer and the planter, that currency is distributed to move the crops. There is the initial point in the movement of currency, and there the original issue of currency should be made. The currency starts from that point to do its work. It travels on a parallel line with the produce which it moves, and when it has finished its work it has reached the market where the produce has arrived and been sold. The cash realized from the sale is then ready to redeem the currency.

An issue of currency for this purpose, if made by a metropolitan bank and by it sent out to the country banks, goes against the course of nature. It is like making water run up hill. It can do so only under pressure. The clearing-house system is the only plan which follows the natural order of trade. The small country bank would issue only just the amount sufficient for the business in hand, thereby securing the maximum of economy in amount.

## VII.

The clearing-house system is a true system, in that it has gradations of higher and lower, which are the true distinctive systemic characteristics. It avoids Hamilton's error by "conforming with the strict theory of a government purely republican."

Ex-Secretary of the Treasury Lyman J. Gage convincingly and admirably stated this aspect of the subject in his address, December, 1900, at the meeting of Group VIII of the New York State Bankers' Association, in discussing a combination of banks without monopoly. He said that it may be possible to secure the advantages of centralized authority and power while avoiding this apprehended danger.

Our political system is representative. It begins in small units. The townships, associated by representation, constitute the county, the counties in

like manner the states, and from the states that indissoluble federation, the general government. With no power not specially extended to it, or clearly implied, the federal authority nevertheless stands for the general defense and general welfare. Something like this is vaguely defined in my thought as possible in our banking system. No consolidation of interests, no absolute sovereignty, no powerful head, with authority to create and control, but association with reference to a common defense against common dangers; the individual bank an independent unit; the district clearing-house a center of association, where the surplus strength of the strong could be made available to support, with entire safety and with proper regard, the exposed position of the momentarily weak. The district clearing-houses, associated in a similar way, might be made to constitute the national clearing-house, and thus, in lines almost parallel to our political institutions, we might secure in the field of banking what we enjoy in our national life, namely, individual freedom with an associated strength, which in the nation has been found equal to all emergencies. The operation of your own [the New York] clearing-house in times of peculiar stress and peril typifies what may be realized along the broader lines to which I refer. By the aid of the strong in support of the imperiled, you have saved from disaster those that were not unworthy, and aided in times of crises exposed interests in the fields of trade and industry. Without specific warrant of law, your action in these respects has everywhere been approved as judicious and wise. Is it not possible under the sanction of law to perfect and extend for the general good of the country a similar plan and one which has been so well demonstrated?<sup>2</sup>

In this address we have the expression of the true American spirit, which is far removed from the aristocratic measures of Hamilton. This country should fulfil its destiny, and bring all its institutions and laws into harmony with the fundamental principles on which our government is established. We should have a democratic and not an aristocratic banking system. The development of banking should be of a piece with the trend of our political growth.

Washington stands at the beginning of our national life, and the next cycle is marked by the figure of Lincoln. They are our two typical patriots. No comparison can be made between them, for they both bear on their hearts the one thought, "the Union." Washington believed in a strong government; Lincoln added the words "of the people."

## VIII.

Without a co-operative system, such as is provided by incorporated clearing-houses, the danger of monetary disturbance is much

<sup>2</sup> *Banker's Magazine*, New York, February, 1901, pp. 179, 180.

increased by the existence of a class of banks which carry no reserve in lawful money. Sir Robert Giffin, in his *Essays on Finance*, says that in London "there has grown up a set of institutions avowedly keeping no cash, professedly dependent on the Bank of England." A similar state of affairs exists in New York and elsewhere in our country, caused by the growth of trust companies, which keep but a few per cent. of cash reserve, and rely exclusively on the cash reserves maintained by the clearing-house banks. It is evident that if the New York clearing-house banks have a reserve of 25 per cent. on \$900,000,000 of deposits, and the New York trust companies have a reserve of 3 per cent. on \$400,000,000, the aggregate reserve in New York is thereby reduced to 18.23 per cent., which is too near the apprehension minimum.

As banking without a reserve is more profitable than with one, there is a great inducement for the increase of trust company banks. Cupidity usually gets the better of prudence. An increase of banks without reserves would bring about an increasingly weak condition of the banking situation. Institutions which do not maintain reserves are now soliciting and receiving deposit accounts from every part of the country, and are able to offer a larger percentage of interest on daily balances than the banks offer which maintain reserves. Demand deposits will inevitably be attracted by these tempting offers, and the result must be a continual lowering of the average percentage of cash reserves. The smaller the cash reserves, the greater the liability to monetary disturbances. The process would go on silently, and not be noticed until some untoward event put a strain on the banks. Then the weakness would develop, and a breakdown of greater or less extent would occur, caused by the scramble for lawful money by these foolish virgins who carry no oil in their lamps.

It becomes therefore of the greatest importance that the reserve-carrying banks should be protected by suitable legislation against what Sir Robert Giffin calls "the vicious practice which is now followed" by non-reserve banks. The reserve banks should be given the resource they need to protect themselves against the danger arising from this defect of an insufficient reserve. If the clearing-houses of which reserve banks are members are given federal charters, then the reserve banks will immediately be organized into a system which will give them all the strength they need to meet any crisis caused by their weaker competitors. This measure therefore

becomes of the highest importance, not only to the reserve banks, which are the peculiar care of Congress, but to all their customers, which practically includes the entire active business community.

## IX.

Bank credit is a commodity in one aspect. It is a service in which a bank of large capital, or an association of banks whose combined capital aggregates a large amount, takes security from a customer of limited capital and standing, and issues to him its notes payable on demand. The issuing bank makes a charge for this service, which is called interest. The charge is for risk, labor, and use of credit. The risk, labor, and use of credit are the same at one time as at another. Therefore the charge of interest should be the same at all seasons. But we have varying rates of interest, because under our present system we have a fixed amount of currency, which is always the same whether demand for business is active or dull. If there were the elasticity which would be afforded by issues under the clearing-house system, there would be uniformity of interest charges at all seasons.

## X.

The discussion over the currency question is one of the most protracted our country has known. Henry Clay, in his speech on the veto of the Bank of the United States, August 19, 1841, said: "Human controversy in regard to a single question should not be perpetual and ought to have a termination." The controversy has gone on since then for sixty years. Thomas H. Benton said in 1837:

The French currency is the best in the world. It has saved France from even a discussion on currency; while in England and with us it is banks, banks, banks—morning, noon, and night; breakfast, dinner, and supper; levant and couchant, sitting or standing, at home or abroad, on steamboat or railroad car, in Congress or out of Congress—it is all the same thing, banks, banks, banks; currency, currency, currency; until our very brains seem as if they would be converted into lampblack and rags.

If these were the feelings of the honorable senator in 1837, what words could he have found to express his emotions if he had lived to hear sixty-six years more of the same kind of discussion?

What is it that prevents our country from reaching a conclusion on this much-discussed currency question? A few reasons for the delay may be mentioned.

Want of familiarity with the theory of credit and science of banking, coupled with a dread of the fearful damage which bad currency legislation in the past has entailed on the business interests of the country, accounts for most of the hesitancy of our legislators and others in committing themselves to any one plan. In many instances our bankers understand the art better than they do the science of banking. It is a difficult matter to bring together the prevalent conflicting political, theoretical, financial, and economic opinions.

Chief among divergent financial opinions are those based upon pecuniary interest. Large banks possess great power in these discussions. The directors and officers of such banks are elected to their positions to promote the interests of their respective banks. They are not paid to look after the interests of the country, and their duty to their stockholders leads them to support plans that will increase their profits to the greatest extent. They would favor some scheme by which all the profit of the entire country in banking would be absorbed by them. They might honestly think they held their positions by divine favor, and smaller concerns should not dispute it. However, they do, and the real question is: Who is to decide? Under our form of government, it is the majority. If so, it is the small country banker who will have the ultimate decision. It happens that the majority in number possess also an aggregate of capital which is larger than that of the large banks. The majority among banks also have as allies the great mass of business men who desire stability in the money market and do not wish to see the preponderating control of the finances of the country to be concentrated in the hands of a few to the peril of the business of every small concern. So it is evident that, in the long run, the majority will govern, in banking as in every other discussion. If a commission on this subject were to be made up, its majority should be composed of the representatives of the true majority of the country in number and amount of capital.

It is also to be observed that country bankers are better acquainted with the needs of the country and are more conservative than their city confrères. The banking plans which have emanated from city bankers have been the subject of derision by interior state bankers' conventions. City bankers are accustomed to large speculative manipulations, and their judgment is affected by their close proximity to such deals. They advocate uncovered issues for all banks,

in spite of the almost certain confusion and damage which would result therefrom; while the country banker jeers at such a proposition, and says that Bryan in his wildest flights never proposed anything so dangerous.

The currency question is in a state of referendum. Members of Congress are willing to pass any kind of measure which is approved by their constituents and which they can approve. With excellent reason, they ask banking and business interests to unite and come to them with a definite proposal. Thus far the public have contented themselves with stamping with their disapproval the various schemes which have been exploited in Congress. One after another these plans have been turned down. Notwithstanding the great exertions made by both congressional committees, supplemented by organized efforts outside of Congress, the plans thus advocated have failed to be approved by the public. The clearing-house proposal has, at the same time, been growing in popular estimation, and has been received with favor in some bankers' conventions and indorsed by one, that of the state of Washington—a record which entitles it to consideration whenever currency reform is discussed. Certainly this limits the selection to that extent. The clearing-house plan has the weakness that its benefits are equally distributed among all sections and to all banks, city and country, large and small. Therefore there is no single powerful interest back of it to hire rooms at Washington and conduct a propaganda with a corps of clerks. While this is its weakness, it is also its merit. For the reason that it is impartial and for the public good, the proposal can stand scrutiny. It can be advocated by public men with no fear that their motives can be questioned. A vote for it in Congress can be explained on the stump and the approval of constituents demanded because it is for their good whom the speaker faces.

## XI.

The evolution of our national banking system is in some points analogous to the development of the constitution. There is a call for devising and discussing such alterations and further provisions as may be necessary to render our banking system adequate to the exigencies of the Union. The call comes in a time of peace and freedom from monetary disturbance. The object is commercial advantage. The changes must be in strict accordance with the republican theory. The party of action and construction must take

the lead. Those who devise must think "continentally." The product of this discussion may need amendment; but if a measure is adopted which meets the approval of the nation, let us hope that of it may be said what Webster said of his plan for an exchequer—a proposition somewhat analogous to the clearing-house system: "If Congress will take that measure and give it a fair trial, within three years it will be admitted by the whole American people to be the most beneficial measure of any sort ever adopted in this country, the constitution only excepted."

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